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going to quit or are we going to translate into action the abstract things called Justice and Good Will? It seems to me we must do the *only* thing to do, and that is to keep the fires of civilization burning. We must not let them die. We cannot play the part of the selfish rich man. Let us accept the call, proud of the fact that it is ours to receive, and as world leaders, rekindle the fires of hope and courage by showing, by our own example, that it is better to cure than to injure, better to love than to hate, better to coöperate

than to fight, better to give than to receive.

It is my firm conviction that we in America can do our greatest service, not by demanding from our European debtors our pound of flesh by asking them to pay us back dollar for dollar in American money; not by cancelling the debt either conditionally or unconditionally, but by letting each nation pay us in European credits at the appropriate time, to be used exclusively in repairing Europe, restoring her energies and renewing her vision.

Inter-Allied Debts and Reparation Payments as International Securities

By FREDERICK C. GOODENOUGH

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ALTHOUGH it is now three and a half years since the Armistice, we are feeling that what has been accomplished since then towards the restoration of Europe falls far short of what might have been done under conditions of closer world-coöperation.

We have still at least three principal questions of supreme importance to Europe and to the whole world which demand a speedy settlement, viz.:

- (1) Sound currency.
- (2) The modification and fixing of the inter-allied debts and reparation payments.
- (3) The method of payment of the reparations.

There is, in the first place, the urgent need for a return to principles of sound currency on the part of those countries which have abandoned them from causes arising out of the War. We know that currency was invented in order to provide a means of exchange of such undoubted and widely recognized value that it could be ac-

cepted anywhere by a seller of goods because he could feel satisfied that at some later date it would be accepted as practically of the same value by any other seller from whom he might wish to purchase. Through this means the field of trade was developed and enlarged.

The same principles apply today, although trade is now of vastly greater complexity, and currency has undergone many changes from its original simple form.

It seems to be clear that, where a currency consists of inconvertible paper money, its value will largely depend upon the rating of the credit of the country concerned, which falls as the volume of paper is increased. So much has been said and written upon the subject of sound currency, and of the evils of a currency which is unsound, that I do not propose to take up your time by what must necessarily amount to a great extent to repetition. I would venture merely to reaffirm

that the first essential to the rehabilitation of the currencies of certain countries is that of a balanced budget, and that this necessitates both the will and the determination on their part to make sacrifices so that internal revenue and expenditure may meet. Subject always to those countries showing a readiness to play their part, there must also be such assistance from outside in the shape of loans and credits as will enable them to tide over the interval until the essentials to a sound system of currency have been restored.

The establishment of a fund abroad through loans and credits from which payments will be made either in gold or the equivalent of gold, would be a first step towards the reestablishment of a currency with a ratio to an effective reserve of gold or its equivalent. This plan of a ratio is now being followed in Great Britain, and by its means the ultimate return to a full gold standard for currency will eventually be achieved.

In the case of those countries where the currencies are in such a condition as to be beyond hope of once more being restored to their pre-war relation to gold, schemes of devaluation will doubtless have to be considered, but with the gradual improvement in the sterling-dollar exchange, and the prospect of further improvement, devaluation of sterling seems to be no longer a proposition that may have to be considered.

THE PAYMENT OF THE REPARATIONS

The second point to which I have referred is that of the amount of the inter-allied debts and payments for reparations and indemnities due by Germany, and the third point is that of the method of their payment. These two points are so closely associated that they may be discussed together.

I would venture to draw your at-

tention to my address to the American Chamber of Commerce in London on April 10, last. I have there endeavored to show by a comparison of figures representing pre-war trade and their application to the payment of interest and redemption of pre-war debts, and, on the other hand, to the amount of the war debts and reparations, how impossible it is to expect that there may be such an increase of world-trade as will suffice to provide for the payment of these latter at the figures at which they now stand; and I have urged the reasons why it is in the interest of the whole world—and especially of America—that there should be a reduction, and that the final amount should be fixed with the least possible delay. Further than this, I have shown how desirable it is that payment should be spread over as long a period as possible. The alternatives would appear to be a lower standard of living on the part of those countries by whom payment must be made, and a consequent reaction, upon America principally, since she is the chief creditor country; or, on the other hand, such enormous creation of credit as will inevitably produce a corresponding rise in prices throughout the world.

England will pay her debts in full, but it will be to the advantage of the world if England and America are in accord as to the economic dangers involved in insisting upon payment by others to a degree which would be beyond their capacity to bear, except through their taking such steps as will alter their economic basis in relation to that of the rest of the world.

In regard to the method of payment of such sums as may eventually be fixed upon, my address contains a suggestion that bonds should be issued by each debtor country, and should be handed to the creditor countries, who may in their turn use them for the

discharge of their own debts to any other creditors. This would involve an endorsement of the bonds, and the object of this plan would be to reduce to the smallest possible compass the amount of securities which would be required to pass between debtors and creditors. It seems to me that in this way dangers of inflation may be avoided, especially if my further suggestion for the endorsement of these bonds and their gradual issue, with the endorsement also of the issuing country, for subscription by the investing public wherever surplus funds may be seeking sound investment, can be adopted.

INTERNATIONALIZED BONDS

There is, to my mind, a great advantage to be secured by this plan. We all know that stabilization of exchange must primarily depend upon trade balance, but in pre-war times experience has shown how useful a part has been played in the adjustment of trade balances through the medium of international securities which have passed and repassed according to exchange conditions between America and Europe and vice versa, with the effect of assisting towards stabilization. These securities would fulfil such a requirement. Many suggestions have been made as to the desirability of initiating some form of international currency with precisely this object in view. I do not myself see what better form of adjustment could be forthcoming at the present time than international securities rather than an international currency; and the utilization of the inter-allied debts and reparation bonds for this purpose, if their ultimate

payment is spread over a long period of years, would help to remove that disturbance of trade and exchange conditions which the direct settlement of debts between government and government would inevitably involve.

These suggestions have been widely discussed, and one of the principal objections which has been put to me has been that the ultimate responsibility for principal and interest falls upon the endorsers of the bonds issued by Germany for the amount of her reparation payments. This is of course true, but my view is that if the reparation payments were duly agreed upon at a reasonable figure, and finally fixed, and the method which I have suggested were adopted—and especially that by which the bonds would find their home in the markets of the world—any practical danger which would involve actual disbursements by the guarantors would be reduced to minimum. So long as these bonds remain in the hands of the governments, and so long as there can be any question as to their being of an amount which is reasonable or otherwise, there will continue the risk of their being used with political objects. There may be dangers that the interest payments, or the principal when it becomes due, may go by default, but, on the other hand, if once the amount is agreed upon and finally settled, and the bonds become internationalized in the way in which I have suggested, and held by the investing public, it seems to me that all such risks would be avoided, and the carrying through of such an operation would in itself be in the nature of a guaranty that Germany would pay.

Appendix

Excerpts from an address, "Some Aspects of the Problem of the Inter-Allied Debts and Reparation Payments," delivered by Frederick C. Goodenough to the American Chamber of Commerce in London

I WISH to draw your attention to the figures contained in Tables A and B, which give the distribution of indebtedness and also the amount due from each country to each, besides the internal debts, so that you will see from the Table upon which countries the burden falls most heavily both as regards the total and as regards the amount per head of the population.

The amounts due to each country are given in the currency of that country. You will understand how difficult it is to make an effective comparison, because of the constant fluctuations in Exchanges which affect the value of the Currencies shown in the Table. There is also the difference between the internal and external value of a currency, and besides that, it must be borne in mind that any increase or decrease which may be made from time to time in the volume of paper currency in any one country, tends to complicate the position still further, by altering price levels, and therefore also the burden of debt.

To summarize quite briefly, you will see that the total due for Inter-Allied Debts is about £4,000,000,000, and this with the Reparation Payments (£6,600,000,000), makes a total of about £10,600,000,000. This figure includes what is due from Russia. It does not include the amount of debt due by each country to its own people for war expenditure nor does it include the amounts due to Great Britain from the Dominions and Colonies forming parts of the British Empire.

There is also left out of the Table, the debt due from the smaller allied countries which took part in the war, such as Serbia, Rumania, Portugal,

and certain non-European Powers. The amounts in these cases are not really large and the consideration of them is not required since they do not materially affect the world's economic problem.

I would particularly draw your attention to one fact relating to the debt of £952,000,000 from Great Britain to the United States of America. This amount was borrowed from America after she entered the war and during the same period a somewhat larger sum was lent by Great Britain to the Allies in addition to that which she had already lent to them before that period. It is important to note that if Great Britain had not lent this sum to her other Allies, it would have been unnecessary for her to have borrowed one penny piece from the United States of America.

Everyone will agree that through the action of Great Britain, America is in a better position than if the money had been lent by her directly to the other Allied countries.

I do not, however, wish to suggest that Great Britain should not pay this debt of £952,000,000, for which she made herself liable. Indeed, my view is, and always has been, that Great Britain will inevitably pay her debts in full, even though they were incurred on behalf of others, but I feel that in such a case as this America should not press us, but should give ample time for payment, and should lend us a friendly hand in the matter of interest, by modifying the rates in the early days whilst we are still finding it a hard struggle to cope with the financial obligations which we have incurred through the part which we played in the war.

TABLE A

COUNTRY	INTERNAL DEBT			DEBT TO ALLIES*	Approximate Sterling equivalent at current rates
	Unit of Currency	Pre-War Debt	Post War Internal Debt		
U. S. A.	\$	Millions 1,028	Millions 23,251†		Millions
United Kingdom ...	£	706	6,702	To U.S.A....	\$4,166
France.....	Franc	33,637	247,500	To U.K.... " U.S.A....	£557 } \$3,851 }
Italy.....	Lira	15,281	89,338	To U.K.... " U.S.A....	£477 } \$1,648 }
Russia.....	Rouble	8,846	..	To U.S.A.... " U.K.... " France...frs. 5,755	\$193 } £561 } 5,755
Belgium.....	Franc	4,627	34,703	To U.K.... " U.S.A.... " France...frs. 3,027	£103 } \$375 } 3,027 }
				Reparation Payments (Gold)	£4,105
					6,600
					£10,705

* Excluding external debt not due to Governments, debts due to certain Colonies and Dependencies and other minor debts.

† The Belgian Debt is subject to special arrangements with the Allies.

‡ Excluding other than Federal Debt.

Nor do I suggest that Great Britain will refuse to remit some portion of what may be owing to her by her European Allies or by Germany unless the United States of America also make some remission in respect of some part of the debts which are owed to that country. I believe that Great Britain will act in this matter according to her own judgment as to what is sound or unsound.

Notwithstanding, however, it would be for the common good of the world if Great Britain and America should come to an agreement as to the economic aspect of the problem.

Reverting to Table A, the amount of the Inter-Allied Debts is about £4,000,000,000, and the amount of the Reparations Debt from Germany is £6,600,000,000, the two making together a total of about £10,600,000,-000. You will not forget that these debts represent purely Government indebtedness, and do not include the great volume of commercial debt, or debt not incurred directly between Governments. Table B is an endeavour to measure the present burden of debt in commodities, as this is in some ways a better basis of comparison. It must be remembered, however, that

TABLE B

PRE-WAR DEBT (Expressed in Units of Commodities)			POST WAR DEBTS (Expressed in Units of Commodities)			
	Million Units	Units per head	Internal Million Units	Debt to Allies Million Units	Total Million Units	Units per head
U.S.A.	211	2.3	3,232	...	3,232	30.7
United Kingdom.	706	15.7	4,215	596	4,811	101.3
France.	1,333	33.7	3,125	805	3,927	98.2
Italy.	605	17.3	614	481	1,095	27.4
Russia.	936	5.2
Belgium.	183	24.4	356	134	480	60.0

The Unit represents the amount of commodities which could be purchased for £1 sterling before the war.

unless interest rates are adjusted accordingly, the real, *i.e.*, the commodity burden of the debt increases with every fall in prices and decreases with every rise in prices. In considering these figures you will bear in mind that in order to arrive at a correct opinion as to how far each country can sustain the amount of debt for which it is shown to be liable according to the Table, due allowance must be given to the conditions, either favourable or otherwise, which affect that country. Thus, for example, in the case of Italy, her debt per head may appear to be relatively low, but it is actually higher than in the case of other countries which have a greater National income than Italy per head of the population, Italy being relatively a poor country.

I now pass on to Table C, which gives the total international pre-war trade, that is to say, the amount of the Exports and Imports of the principal countries of the world for the year 1913. It does not include any estimate for invisible exports. The total figure, which includes a large amount of re-exports, is given at £7,933,500,000, and if this amount were adjusted so as to correspond with the values of today,

the volume represented by that figure might perhaps be put at £15,867,000,-00.

It is perhaps unnecessary for me to say that debts can only be paid from one of two sources, that is to say, either out of capital (which in the case of a settlement between nations would include the surrender of territory and the transfer of accumulated wealth such as securities or industrial undertakings, or treasure or works of art) or in the alternative, out of income, and this method must resolve itself into payment through goods and services; in the case of goods, which would include both natural products as well as manufactured articles, and also in the case of services, payment can only be made out of profits.

It is quite clear that before goods can be exported to pay for a debt which is due, the cost of materials and labour have to be met first, and it is only the surplus in value (if any), that is to say, the profit, which is available for payment of debts.

It is, of course, possible to bring about some settlement of debt by obtaining credit which is, in fact, a postponement, or by an inflation of currency, which is in a measure the

TABLE C—WORLD COMMERCE FOR THE YEAR 1913

	Imports 1913 £	Exports 1913 £
Argentine	84,270,000	96,700,000
Austria-Hungary	141,483,000	115,129,000
Belgium	183,345,000	143,073,000
Brazil	67,170,000	64,612,000
Bulgaria	8,524,000	6,257,000
Chile	24,713,000	29,723,000
China	72,196,000	56,542,000
Denmark	45,417,000	37,893,000
France	340,335,000	275,012,000
Germany	534,750,000	495,630,000
Greece	6,162,000	5,800,000
Italy	145,511,000	100,157,000
Japan	72,945,000	63,240,000
Netherlands	301,083,000	259,250,000
Norway	31,155,000	20,596,000
Peru	6,088,000	9,137,000
Portugal	16,793,000	7,723,000
Rumania	22,789,000	27,668,000
Russia	129,150,000	150,355,000
Serbia	4,617,000	4,676,000
Spain	47,152,000	39,947,000
Sweden	44,095,000	42,256,000
Switzerland	77,030,000	55,037,000
Turkey	37,774,000	22,474,000
United Kingdom	768,734,000	634,820,000
British Dominions and India	566,392,000	541,824,000
United States	362,595,000	485,701,000
 TOTAL	 £4,142,268,000	 £3,791,232,000

same thing, but this latter must necessarily be followed by a corresponding alteration of the economic basis of the country which has recourse to that method.

So far as payment out of capital is concerned, we may reasonably conclude that, apart from any scheme for the mobilization of securities which may still exist in the hands of the debtor nations, or of cash balances standing to their credit abroad, little or nothing further remains to be effected under this head, but in order to form some opinion as to whether such an increase in international trade can be looked for as will provide for the payment of War Debts out of income, it is useful to have before us not only the amount of those debts, as shown in Table

“A,” but also the figures representing the normal volume of international trade, as shown in Table “C,” and to place the former side by side with the latter.

I think that the figures show how impossible it is to expect anything of the kind, and not only is this conclusion forced upon us by the relative figures in the two tables, but it is brought home to us with added force when we see how great has been the loss of productive power through the sacrifice of life in the war. Apart from the great number of the maimed and disabled, France lost in killed, 1,385,000 men, Italy 460,000, and the United Kingdom 743,000. Taking Europe as a whole, excluding Russia, it is estimated (see table D) that 6,951,648

men were killed, and 15,504,919 wounded. (I do not include the figures for the U.S.A., because she is not a debtor nation.) It only remains to add that those lives which were sacrificed were of an age when their powers of production were at their best, and that, speaking broadly, they were the pick of their generation. In confirmation of this statement, there is the fact that France lost 57 per cent of her male population between twenty and thirty-one years of age.

Another factor which has to be borne in mind is that it is no longer possible in the case of most of the countries of Europe to look to any material amount of invisible exports, which have, to a large extent, disappeared since the war, and cannot be expected to return until the world has again settled down to normal conditions of trade and financial intercourse. It follows, therefore, that if these debts are to be paid in full, even if the payment is spread over a long period, either the economic basis of the whole

world must be changed from what it is today, including a further general alteration in price levels, quite apart from the alteration which has already taken place since the war began, or, as I have said, there must be a general reduction in the standard of living, affecting some countries more than others, with the possible consequences I have indicated.

The profits of trade and other sources of income do not today suffice to provide more than is actually required for the service of today's pre-war debts, and up to the present no step has been taken towards payment of any really substantial proportion of war debts or reparation payments. Fresh sources of income will, therefore, be needed to meet the added charges for war debts, involving great capital outlay which will strain the world's supply of loanable capital, and this factor by itself alone may serve to bring about a fresh economic basis. In the alternative there must be a lower standard of living, and this, as I have

TABLE D—WAR CASUALTIES

	Deaths	Wounded
United Kingdom.....	743,702	1,693,262
British Dominions.....	140,923	357,785
India	61,398	70,859
 Total—British Empire.....	946,023	2,121,906
France.....	1,385,300	3,000,000
Belgium.....	38,172	44,686
Italy.....	460,000	947,000
Portugal.....	7,922	13,751
Rumania.....	335,706	700,000*
Serbia.....	127,535	133,148
 Total—Allies (excluding U.S.A.).....	3,299,958	6,960,491
Germany.....	2,050,466	4,202,028
Austria-Hungary.....	1,200,000	3,620,000
Bulgaria.....	101,224	152,400
Turkey.....	300,000	570,000
 Total.....	6,951,648	15,504,919

*Approximate estimate—no record available.

(No reliable figure can be given for Russia, but probably the figures exceed—Deaths, 1,700,000; Wounded, 5,000,000.)

said, may re-act to the disadvantage both of the debtor and of the creditor.

Moreover, it follows that the more rapid the payments, the greater must be the economic dislocation.

I think you will agree that there is nothing which is more disturbing to mankind than such alterations in economic conditions as result from changes of price levels and of wages and other costs of production. The world has experienced this to the full since the war, and it is safe to say that the difficulties which now present themselves in all directions are largely due to causes of economic origin.

After the Franco-Prussian War, changes in economic conditions were similarly threatening, but were largely offset by increased production and by

developments in organization which had an alleviating effect.

Today, although the future is unknown, we cannot count upon any factor of that kind presenting itself.

I think that I have said enough to show that some adjustment, some modification, must take place in regard to the amount of the War Debts and Reparation payments if the world is to escape from an impossible situation, and that it is in the interest of all that there should be no such low standard of living imposed upon any one population as will either give to it the power of undue competition or will force it into bankruptcy. I think that America is more concerned than any other country, because she alone is in the position of being solely a creditor so far as war debts are concerned.

An Analysis of the International War Debt Situation

BY R. C. LEFFINGWELL

New York City, formerly Assistant Secretary of the Treasury

THREE is pretty general agreement that the rehabilitation of Europe depends upon four things:

1. Peace and disarmament.
2. Balanced budgets and honest money.
3. The removal of international trade barriers.
4. The settlement of international war debts, including reparations.

America has made her contribution to the first of these at the Washington Conference in the program for naval disarmament. That was the particular form of disarmament that touched America closely and she made her contribution where she had a definite interest and a definite part to play. Disarmament in Europe must be

preceded by the settlement of political problems in Europe, and from that settlement America has, rightly or wrongly, definitely and repeatedly declared her detachment.

The countries of continental Europe cannot well balance their budgets or stop printing irredeemable paper money until they have established peace, reduced their military establishments, obtained a settlement or postponement of international war debts and reduced or eliminated subsidies and doles.

The removal of trade barriers in Europe is also inextricably interwoven with political questions there. But America is setting Europe in this